

# Section I.

# Overview and Analysis

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# Overview and Analysis



Today's environmental challenges are very complex, and future challenges will likely be even more daunting. To continue to meet these challenges, the U.S. Environmental Protection Agency (EPA) has worked during FY 2004 to increase the pace of improvement and identify new and better ways to protect human health and the environment. By focusing on the results to be achieved and expanding collaboration, improving technology, and increasing market incentives, EPA is working to do more, and to do it faster and more cost efficiently.

In this report, the Agency reviews its FY 2004 progress toward achieving environmental results—improving the quality of air and water and preserving and protecting the land—while keeping the nation economically competitive. This document meets the requirements of the Government Performance and Results Act and other management legislation.<sup>1</sup>

In FY 2004, with resource obligations of \$10.16 billion and 17,511 full-time-equivalent employees, EPA achieved significant results under each of the five long-term environmental goals established in its 2003 *Strategic Plan*. To help measure EPA's annual progress and assess its success, Agency leaders established 79 critical performance goals at the beginning of FY 2004. EPA's progress toward these

goals is reported in the chapters that follow. Because managing taxpayer dollars efficiently and effectively is key to delivering the greatest results to the American people, this report also presents a picture of the Agency's financial activities and achievements during the year.

The *FY 2004 Annual Report* contains three sections. Section I, Overview and Analysis, provides a broad picture of EPA's environmental and fiscal performance during

FY 2004.\* It highlights EPA's environmental accomplishments and performance challenges, outlines the Agency's financial position at the end of FY 2004, discusses efforts to strengthen performance and manage for improved results, and describes how EPA is addressing management issues and audit recommendations. Section II, Performance Results, describes in greater detail the results that

EPA—working with its federal, state, tribal, and local government partners—achieved under each of the Agency's five goals. It also discusses EPA's successes and challenges in meeting the Annual Performance Goals established in EPA's FY 2004 *Annual Plan*. Section III, FY 2004 Audited Financial Statements, summarizes EPA's financial activities and achievements and presents the Agency's annual financial statements as well as a summary of the independent audit conducted by EPA's Inspector General.

## EPA'S LONG-TERM STRATEGIC GOALS

1. Clean Air & Global Climate Change
2. Clean & Safe Water
3. Land Preservation & Restoration
4. Healthy Communities & Ecosystems
5. Compliance & Environmental Stewardship

\* The Overview and Analysis also addresses requirements for a "Management's Discussion and Analysis" of the annual financial statements included in EPA's *FY 2004 Annual Report*. Because the *FY 2004 Annual Report* consolidates a number of specific reports, some required components of the "Management's Discussion and Analysis" are presented in greater detail elsewhere in this report. In particular, EPA's mission statement and organization chart appear at the front of the report. Section II discusses the Agency's performance goals and results. Section III presents EPA's financial statements, along with a discussion of systems, controls, and legal compliance.

# Overview of Performance Results

Throughout FY 2004, EPA collaborated closely with its partners to achieve better environmental results by improving approaches and using resources wisely. The section below describes key environmental and program results in protecting the nation's air, water, and land; summarizes how well the Agency did in meeting its FY 2004 performance goals; and discusses current performance challenges.

## ENVIRONMENTAL ACCOMPLISHMENTS

### Clean Air and Global Climate Change.

Every year, state and federal criteria air pollutant programs established under the 1990 Clean Air Act Amendments prevent tens of thousands of premature mortalities, millions of incidences of chronic and acute illness, tens of thousands of hospitalizations and emergency room visits, and millions of lost work days.<sup>2</sup>

In FY 2004, EPA announced a new suite of rules, critical to achieving cleaner, healthier air. The Clean Air Rules of 2004 include the Clean Air Ozone Rules, Clean Air Fine Particle Rules, Clean Air Interstate Rule, and Clean Air Mercury Rule. EPA identified which areas of the country were and were not currently meeting the health-based ozone standard. EPA also issued a new rule classifying geographic areas by the severity of their ozone conditions and establishing a deadline for state and local governments to reduce ozone levels. In early 2005, the Agency will make similar geographic boundary determinations for the new particulate matter (PM) standard.



In addition, EPA issued the Clean Air Non-Road Diesel Rule, which requires strong pollution controls on diesel engines used in construction, agriculture, mining, and other industries. By combining tough exhaust standards with cleaner fuel requirements, the rule

*The air is getting cleaner every year.*

will reduce the sulfur content of diesel fuel by 99 percent and cut emission levels from non-road diesel equipment by over 90 percent. This program is expected to provide dramatic health benefits each year, preventing 12,000 premature deaths and hundreds of thousands of respiratory problems. EPA estimates that the overall public health benefits of this rule outweigh the economic costs by 40:1.<sup>3</sup> Combined with existing EPA programs, the new Clean Air Rules and Clean Air Non-Road Diesel Rule are estimated to bring well over half of the nation's non-attainment areas into attainment with the National Ambient Air Quality Standards for ozone and PM.<sup>4</sup>

In FY 2004, the Agency completed the first phase of a two-phase program for addressing large stationary sources of toxic air pollutants. The 96 Maximum Achievable Control Technology Standards completed and issued under this program have resulted in annual reductions of approximately 1.5 million tons of toxic air emissions and will achieve even greater reductions when all sources come into full compliance by 2007. In the second, risk-based phase of the air

toxics program, EPA will emphasize a community-based approach to address local problems and reduce exposures to such pollutants as toxic chemicals, particulates, and asthma triggers.

Based on data obtained in FY 2004, EPA's climate protection programs again exceeded their goals for reducing greenhouse gas emissions.<sup>5</sup> These programs remain on track to provide 40 percent of the greenhouse gas reductions required to meet the President's 18 percent greenhouse gas intensity improvement goal by 2012. Encouraged by the Agency's ENERGY STAR program, American consumers and businesses avoided greenhouse gas emissions equivalent to those from 15 million automobiles, while saving approximately \$8 billion on their energy bills.<sup>6</sup>

EPA also continued important research on PM during FY 2004 that supports the association between exposure to PM and illness and death, specifically for asthmatic children and other susceptible groups.<sup>7</sup> Scientists also found that PM<sub>2.5</sub>, the component of PM smaller than 2.5 microns in diameter, penetrates most indoor environments easily. In FY 2004, EPA provided an estimate of the relationships between indoor concentrations of PM<sub>2.5</sub> and people's exposure to particles from both indoor and outdoor sources.<sup>8</sup> These research results will enable regulators to more accurately estimate the risks posed by personal exposure to PM<sub>2.5</sub>.

**Clean and Safe Water.** The percentage of the population served by U.S. community water systems that met all health-based drinking water standards in effect in 1994

*Drinking water is safer and recreational surface waters are cleaner.*

increased from 79 percent in 1993 to 90 percent in 2003. Although final FY 2004 drinking water data will not be available until January 2005, EPA expects that these critical gains have been maintained.



During FY 2004, EPA reviewed and approved new or revised water quality standards for 27 states and promulgated federal standards for Puerto Rico. By the end of FY 2004, 25 tribes had EPA-approved water quality standards in place. In addition, EPA supported states and tribes in developing biological and nutrient criteria that will enable them to adopt water quality standards that more fully protect aquatic life and water.

Despite ongoing challenges in issuing permits to protect surface water under the National Pollutant Discharge Elimination System (NPDES), in FY 2004, permits implementing effluent guidelines prevented the discharge of approximately 136 million pounds of pollutants into the nation's waters. This represents a cumulative total of 2.3 billion pounds since 1999.<sup>9</sup> Part of this success is due to the states and EPA's issuance of permits at concentrated animal feeding operations to protect surface water from animal waste.

EPA and its state partners also continued to improve their understanding of water quality. In FY 2004, EPA released for public

comment the second report on the condition of the nation's coastal resources, including estuaries, coastal wetlands, and coral reefs. In addition, in FY 2004 EPA and the states initiated the first national study of the ecological condition of small streams throughout the United States and will use the results to make program and resource decisions at the national and state levels. In April 2004, EPA published a "List of Beaches"<sup>10</sup> that, for the first time, provided the names, locations, and monitoring status of beaches along the country's coastal and Great Lakes waters.

**Land Preservation and Restoration.** In FY 2004, EPA completed cleanup ("construction completes") and reduced risks posed to human health at 40 sites on the Superfund National Priorities List (NPL), including the 900th site on the list in Port Salerno, Florida. At the close of FY 2004, more than 83 percent of Superfund NPL sites and 84 percent of high-priority RCRA corrective action facilities had met Agency goals for human health indicators, meaning that controls are in place to prevent any unacceptable human exposures from

## *Cleanup construction completed at 926 Superfund sites since the early 1990s.*

occurring under current land and groundwater use. In addition, groundwater protection goals had been met at nearly 67 percent of Superfund sites and 70 percent of high-priority RCRA corrective action facilities.

Under the Agency's waste prevention programs, underground storage tank releases were reduced to fewer than 5,000 by the middle of FY 2004 compared with more than 12,000 releases in FY 2003. EPA exceeded its FY 2004 goal of permitting or establishing approved controls to prevent dangerous releases to air, soil, and groundwater at 81 percent of the country's hazardous waste management facilities.

## LOVE CANAL REMOVED FROM SUPERFUND LIST

On September 30, 2004, EPA removed the Love Canal site in Niagara County, New York, from the Superfund NPL. All cleanup work at the site has been completed, and follow-up monitoring conducted for the past 15 years confirms that cleanup goals have been reached. EPA and the New York State Department of Environmental Conservation have contained and secured wastes already in the canal so that they no longer leak into surrounding soils and groundwater and have revitalized properties in the neighborhood surrounding the canal.

The 70-acre Love Canal site encompasses a hazardous waste landfill where chemical waste products were disposed of from 1942 through 1952. In 1953, the original 16-acre hazardous waste landfill was covered, and a school and more than 200 homes were built nearby. Residents reported odors and residues as early as the 1960s; studies in the 1970s showed that numerous toxic chemicals were migrating from the landfill and contaminating nearby waterways. In 1978, New York Governor Hugh Carey ordered the purchase of residents' homes surrounding the canal. In 1978 and 1980, President Jimmy Carter declared two separate environmental emergencies and, as a result, approximately 950 families were evacuated from a 10-block area surrounding the canal. The emergency declaration area included neighborhoods adjacent to the site covering 350 acres. In 1980, the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), also known as Superfund, which addresses abandoned hazardous waste sites, was passed largely due to the problems at Love Canal.

Today, the area known as Love Canal is once again a flourishing community. Forty acres are covered by a synthetic liner and clay cap and surrounded by a barrier drainage system. Contamination from the site is also controlled by a leachate collection and treatment facility. Neighborhoods to the west and north of the canal have been revitalized, with more than 200 formerly boarded-up homes renovated and sold to new owners, and 10 apartment buildings constructed. The area east of the canal has also been sold for light industrial and commercial redevelopment. The Love Canal site will continue to be monitored and remain eligible for cleanup work in the unlikely event that a change in site conditions should warrant such an action.

EPA's waste management and cleanup programs faced several challenges in FY 2004. The Superfund program faced a growing backlog of projects ready to begin construction, coupled with the challenge of funding several large and complex ongoing projects. During FY 2004, Superfund underwent a series of internal and external evaluations to explore this problem. As a result, the program has engaged in a public dialogue to identify and implement a series of reforms that will address these issues over the coming years.<sup>11</sup>

Generation of municipal solid waste (MSW) remained stable, at slightly less than 4.5 pounds per capita daily, while increases in the rate of recycling did not occur as projected. As a result, EPA is unlikely to reach its goal of 35 percent recycling by 2005, and is extending this goal to 2008. To help increase recycling rates, EPA is targeting the paper, plastics, packaging, and organics segments of the MSW stream. For example, EPA launched its "Greenscapes" program in FY 2004 to foster composting of food and yard wastes—organic materials representing over 25 percent of MSW—and using the compost to landscape roads, highways, golf courses, ski resorts, and industrial and institutional facilities.



*Childhood lead poisoning has been reduced by half since the early 1990s.*

### Healthy Communities and Ecosystems.

Through FY 2004, EPA continued to reduce risks to communities, homes, workplaces, and ecosystems. The Agency reviewed new chemicals and pesticides before they were put on the market and older chemicals and pesticides already in use for unacceptable risks. EPA-screened chemicals now comprise more than 22 percent of the U.S. inventory of more than 76,000 commercial and/or industrial chemicals.<sup>12</sup> In 2004, EPA provided industry with tools to pre-screen new chemicals for adverse effects early in their development, saving resources and enhancing environmental protection and stewardship. In addition, more than 400 chemical companies and 100 industry consortia in FY 2004 committed to develop data for more than 2,200 chemicals produced or imported in quantities greater than 1 million pounds per year (high-production-volume, or HPV, chemicals). These hazard screening data will be available to the public and will cover 92 percent of the nation's chemicals that EPA has identified as having incomplete hazard-screening data.<sup>13</sup>

### *EPA registered another 26 new safer pesticides in FY 2004.*

In 2004, EPA met new standards for efficiency and new deadlines under the Pesticide Registration Improvement Act of 2003 (PRIA), allowing innovative and safer pesticide products to reach the marketplace faster, and exceeding its goal for registering alternatives to pesticides that may endanger human health and the environment. In 2004, for example, EPA registered one new active ingredient as an alternative for methyl bromide, a pesticide known to deplete the ozone layer and scheduled for phase-out. EPA also registered 10 new agricultural uses for already-registered active ingredients, as alternatives for methyl bromide.

EPA is also making progress toward protecting the health of vulnerable

children—the incidence of childhood lead poisoning has been reduced by half since the early 1990s.<sup>14</sup> In 2004, EPA began to focus outreach and education efforts on “hot spots” where the incidence of childhood lead poisoning remains high, often in disadvantaged urban centers. The Agency also completed a study providing significant new data on the aggregate exposures of preschool children to pollutants commonly found in their homes and daycare centers.

In May 2004, the President signed an Executive Order directing Administrator Leavitt to establish the Great Lakes Federal Task Force, comprising nine Cabinet agencies, the U.S. Army Corps of Engineers, and the Council on Environmental Quality, to coordinate the federal effort to improve water

### *Administrator Leavitt leads Great Lakes Federal Task Force.*

quality in the Great Lakes.<sup>15</sup> The Order calls for regional collaboration to develop action plans to address priorities, identify resource needs, develop an implementation schedule, and facilitate a cohesive management process. During FY 2004, EPA worked with Canada to monitor conditions in the Great Lakes by tracking a number of indicators, such as polychlorinated biphenyl (PCB) concentrations in predator fish, atmospheric deposition of toxic chemicals, and phosphorus levels in the water.<sup>16</sup> Water quality monitoring conducted in 2003 of the Lake Erie Central Basin “dead zone” showed that phosphorus concentrations are approximately twice the target levels. EPA is conducting a study of this problem, believed to be linked to invasive species such as zebra mussels, and expects to issue the final report in FY 2005.

In FY 2004, EPA also protected and restored over 100,000 acres of estuarine habitat within the 28 estuaries of the National



Estuary Program. In addition, the President announced an aggressive new national goal to achieve an overall increase of America’s wetlands over the next 5 years. To reach this goal, EPA will be working to restore 6,000 acres and enhance an additional 6,000 acres of wetlands over the next 5 years (an average of 1,200 acres per year in each category).<sup>17</sup>

**Compliance and Environmental Stewardship.** EPA continued to promote compliance with environmental requirements, enforce environmental laws, and encourage environmental stewardship. The Agency estimates that enforcement actions concluded in FY 2004 will reduce, treat, or eliminate over 1 billion pounds of pollutants, with a total estimated reduction of 2.5 billion pounds since FY 2001. Eighty three percent of enforcement actions concluded in FY 2004 will result in increased environmental protection or improved long-term facility environmental management practices.

EPA also provided specialized compliance assistance to over 731,000 facilities, states, and other regulated entities to

## FY 2004 PROGRESS IN HOMELAND SECURITY

- Protecting Water Facilities From Terrorist Attacks:** EPA continued to assist the nation's drinking water and wastewater facilities in protecting infrastructure from terrorist and other intentional attacks. By the end of FY 2004, 100 percent of water systems serving at least 100,000 people had completed vulnerability assessments. EPA expects 100 percent of the nation's small systems to have assessments in place in 2005.
- Improving Emergency Preparedness for Large-Scale Incidents:** EPA collaborated with its federal partners to enhance the incident command system across government and the private sector; assist states, and develop national policy and guidance on response coordination and emergency support. EPA field responders were trained to detect, analyze, and respond to chemical, biological, and radiological agents. In addition, the Agency's criminal enforcement personnel supported the U.S. Secret Service and FBI at designated National Special Security Events such as the G-8 Nations Summit, and supported the U.S. Capital Police and FBI during the ricin incident at the U.S. Capitol.
- Developing the Nation's Ability to Respond to Chemical Terrorism:** EPA led a collaborative effort with nine federal agencies, numerous state agencies, private industry, emergency medical associations, and other organizations to increase understanding of the potential health effects from various levels of exposure to hazardous chemicals during a terrorist incident. In FY 2004, "Acute Exposure Guideline Levels" were proposed for 22 highly hazardous chemicals, bringing the cumulative total to 128 chemicals.
- Eliminating Anthrax Spores:** EPA continued to spearhead scientific collaboration to measure the effectiveness of various liquid, gaseous, and vaporized chemical sporicides for eliminating anthrax spores resulting from a terrorist incident.



improve their understanding of requirements and environmental management practices. In FY 2004, 90 percent of the regulated community responding to compliance assistance center surveys indicated an improved understanding of environmental regulation, and 72 percent of the respondents improved environmental management practices as a result of the assistance.<sup>18</sup>

Under EPA's Green Chemistry Challenge Award program, which provides Presidential recognition to industries

*EPA's pollution prevention programs eliminated over 600 million pounds of hazardous chemicals in FY 2004.*

achieving outstanding pollution prevention, 134 million pounds of hazardous chemicals were eliminated from the environment.<sup>19</sup> EPA also worked with industry in its Design for the Environment program to develop cleaner, more environmentally friendly products. In FY 2004, Design for the Environment eliminated 63 million pounds of hazardous chemical use, saved 23 million gallons of water, and provided industry \$488,000 in cost savings.<sup>20</sup> Taken together, all of EPA's pollution prevention programs resulted in the elimination of over 600 million pounds of hazardous chemicals, saved 495 million gallons of water, and saved companies \$936,000.<sup>21</sup> An additional benefit of the Agency's pollution prevention work was the elimination of 77 metric tons of carbon dioxide.

## HOMELAND SECURITY

In FY 2004 EPA revised its Homeland Security Strategic Plan, which identifies the range of homeland security activities

the Agency conducts, taking into account the evolving role of the U.S. Department of Homeland Security.<sup>21</sup> The Agency also spent

## *Vulnerability assessments completed on all major water systems.*

considerable time and effort mapping out responsibilities and strategies to address recently issued Presidential Directives. More information on EPA's Homeland Security Program is available at <http://www.epa.gov/homelandsecurity>.

### THE PRESIDENT'S MANAGEMENT AGENDA

EPA's leaders recognize that organizing the Agency and managing its work and resources as efficiently as possible will deliver the best results to the American people. The President's Management Agenda (PMA)

## *EPA improved its scores under the President's Management Agenda.*

provides a framework for assessing resource management efforts and ensuring that EPA is streamlined, responsive, and results-oriented. Building on its FY 2003 accomplishments, EPA made significant progress in implementing the PMA reforms for Strategic Management of Human Capital, Competitive Sourcing, Expanding E-Government, Improved Financial Performance, and Budget and Performance Integration. More information about the Agency's work under the PMA is available at <http://www.epa.gov/pmaresults>.

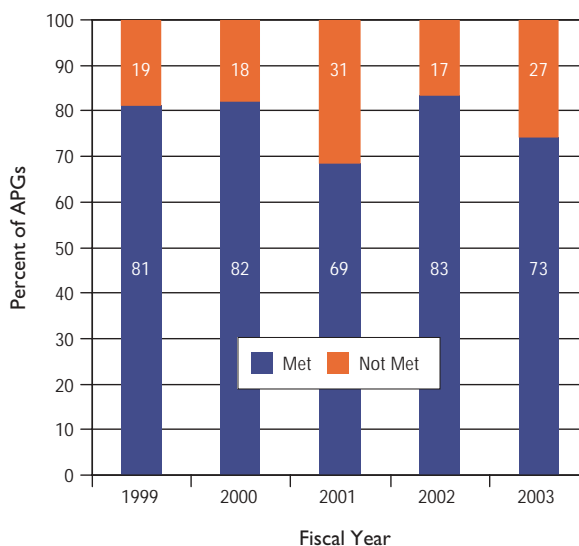
### SUMMARY OF PERFORMANCE DATA

In FY 2004, EPA met 78 percent of the annual performance goals (APGs) for which data are provided in this report. FY 2004 results to date reflect an improvement over the 73 percent of goals the Agency met in FY 2003.

In its *FY 2004 Annual Plan*, EPA committed to 79 APGs. However, because final data for 25 of these APGs will not be available until later in 2004 or beyond, these APGs are not included in the tallies provided in this report. They will be discussed in future annual reports. Figure 1 provides an update of results for prior years; charts presenting EPA's FY 2004 performance results and highlights of 4-year performance trends are provided with each chapter in Section II.











Despite EPA's and its partners' best efforts, the Agency was not able to meet all planned targets for FY 2004. EPA did not meet 12 of the 54 FY 2004 APGs for which performance data are currently available. However, the Agency does not expect this shortfall to compromise its ability to meet its longer-range goals and strategic objectives. EPA will consider these shortfalls as it adjusts its APGs and program strategies for FY 2005 and beyond. The performance data charts in Section II provide more complete information on missed targets, discuss efforts to meet future targets, and describe the Agency's progress toward its longer-range strategic goals and objectives.

Figure 1: EPA's Updated Performance Results  
(Annual Performance Goals for Which Final Data Are Available)



During FY 2004, final performance results data became available for a number of APGs from prior years: 19 for FY 2003, two for FY 2002, one for FY 2001, and one for FY 1999. The above graph includes these additional results.

## EPA's FY 2004 PROGRESS UNDER THE PRESIDENT'S MANAGEMENT AGENDA

INITIATIVE	STATUS <sup>23</sup>	PROGRESS	HIGHLIGHTS
Human Capital	 Yellow	 Green	<ul style="list-style-type: none"> <li>—Improved status score to “yellow” and received “green” progress score from the Office of Management and Budget (OMB) for 4 quarters in FY 2004. Achieved EPA's July 1, 2004, “Proud-To-Be” goals.</li> <li>—Issued a revised “EPA Strategy for Human Capital” and made significant progress in implementing it.</li> <li>—Developed and implemented a human capital accountability plan.</li> <li>—Aligned all employee performance standards with the Agency's mission and Strategic Plan.</li> <li>—Began implementing a plan to move from a two-level to a multi-level performance management system for Agency employees.</li> </ul>
Competitive Sourcing	 Yellow	 Green	<ul style="list-style-type: none"> <li>—Improved status score to “yellow” and received “green” progress scores from OMB for 3 quarters in FY 2004. Achieved the Agency's July 1, 2004, “Proud-To-Be” goals.</li> <li>—Began conducting EPA's first standard competition of Agency-wide Employee Benefit services in May 2004. However, EPA's participation in another government-wide initiative led to cancellation of this competition.</li> <li>—Initiated a second standard competition, covering Agency-wide Vendor Payment services with completion expected in August 2005.</li> <li>—Submitted a long-term competitive sourcing plan to OMB for review.</li> <li>—Expanded EPA's Competitive Sourcing Council to include all major program offices, as well as other headquarters and regional offices.</li> </ul>
Expanded E-Government	 Green	 Green	<ul style="list-style-type: none"> <li>—For the first time, achieved “green” status score from OMB for E-Government. Achieved EPA's July 1, 2004, “Proud-To-Be” goals.</li> <li>—Participated in 17 of the 25 E-Government initiatives under the PMA. Led the architecture workgroup for the financial management piece of OMB's “Line of Business” efforts.</li> <li>—Continued to serve as the federal agency lead for the E-Rulemaking initiative. Reached agreement on the core functions and architecture for the Federal Docket Management System (FDMS).</li> <li>—Completed all 13 E-Government Memoranda of Understanding (MOUs) that EPA was required to complete in FY 2004.</li> <li>—Implemented an Earned Value Management System (EVMS).</li> <li>—Submitted the Critical Infrastructure Protection plan to OMB.</li> </ul>
Improved Financial Performance	 Green	 Green	<ul style="list-style-type: none"> <li>—Maintained EPA's “green” status score. Received “green” progress scores from OMB for 4 quarters in FY 2004 and achieved the Agency's July 1, 2004, “Proud-To-Be” goals.</li> <li>—Delivered EPA's FY 2004 Annual Report with audited financial statements by the required November 15, 2004, deadline, and met all required deadlines for the Agency's quarterly financial statements.</li> <li>—Developed a framework and action plan to guide the Agency's future efforts in integrating financial and performance information for decision making.</li> <li>—Worked with Treasury and OMB and reconciled variances in year-end Superfund Trust Fund resources, which have accumulated over the last 3–4 fiscal years. The Superfund Trust Fund account balance statements are now in agreement across all three agencies.</li> <li>—Identified EPA's high-risk areas for erroneous payments, and expanded the scope of the Agency's erroneous payments review to determine that funds are used for their intended purpose.</li> </ul>
Budget and Performance Integration	 Yellow	 Green	<ul style="list-style-type: none"> <li>—Received “green” progress scores for three out of four quarters in FY 2004. Did not achieve EPA's July 1, 2004, “Proud-To-Be” goals.</li> <li>—Worked cooperatively with OMB on the FY 2006 Program Assessment Rating Tool (PART) process, completing 32 PART assessments to date.</li> <li>—Developed OMB-approved efficiency measures for an additional 20 programs that have undergone a PART review.</li> <li>—Developed a new streamlined, transparent process for reaching agreement on regional performance commitments, enabling EPA regions to consider targets across five national programs and engage more effectively with states and tribes.</li> </ul>

# Financial Analysis

Administrator Leavitt's 500-Day Plan to "increase the velocity of environmental progress by implementing a better way" recognizes the importance of managing resources: *Managing Resources Wisely* is one of the plan's nine priorities. Key to the Administrator's principles for "a better way" is considering the benefits and costs of EPA actions. Agency managers rely on financial analyses as well as performance information to make planning and priority-setting decisions that influence results.

EPA's financial statements, presented in Section III, are an important aspect of accountability. They provide a snapshot of EPA's financial position at the end of FY 2004 and have been audited by the Office of Inspector General.

## RESOURCES AND OUTLAYS

In FY 2004 EPA received \$8.41 billion in Congressional appropriations.<sup>24</sup> *EPA Financial Trends*<sup>25</sup> (Figure 2) shows a 5-year snapshot of the Agency's available and used resources. The *Statement of Budgetary Resources*, included in Section III, presents additional information on the Agency's resources.

EPA's net outlays, as published in the U.S. Department of the Treasury's *Annual Statement of Receipts and Outlays*, are relatively small compared to those of other federal agencies and the entire federal government. Figure 3 compares EPA's net outlays with those of selected Cabinet-level departments. Figure 4 shows EPA's FY 2004 obligations by Congressional appropriation.

EPA works with its partners in the public and private sectors to accomplish its mission and uses a variety of funding mechanisms—including grants, contracts, innovative

## FINANCIAL HIGHLIGHTS

- Received the 2003 President's Quality Award for Improved Financial Performance.
- Achieved greater financial accountability by maintaining a less than 1 percent erroneous payment rate.
- Earned an unqualified audit opinion on the FY 2004 financial statements.

Figure 2: EPA Financial Trends

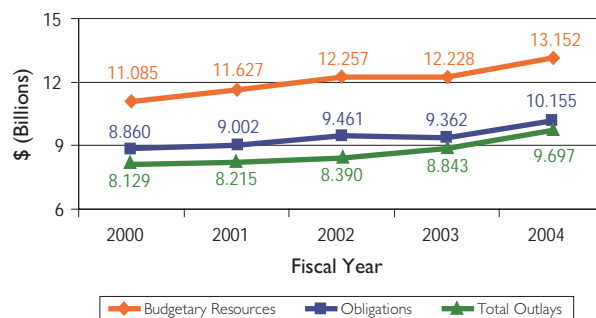


Figure 3: Government Net Outlays by Selected Agencies

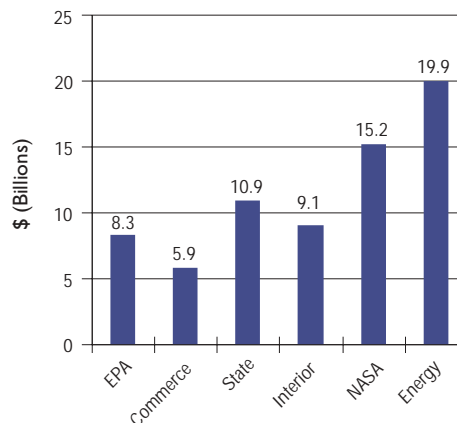


Figure 4: FY 2004 Obligations by Appropriation (Dollars in Thousands)

State & Tribal Assistant Grants	\$3,908,755 (38.8%)
All Other	\$4,769,489 (47.0%)
Superfund	\$1,477,137 (14.5%)
<b>Total</b>	<b>\$10,155,381 (100%)</b>

Figure 5: FY 2004 Cost Categories

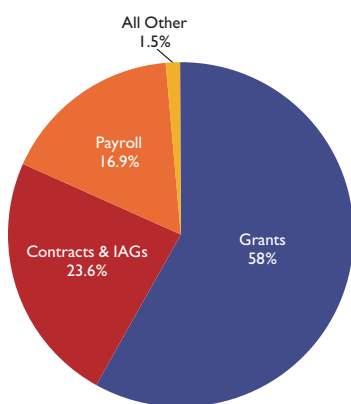


Figure 6: FY 2004 Major Grant Categories

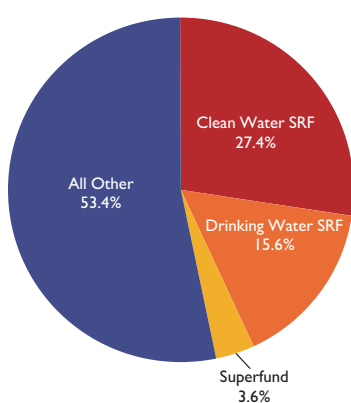


Figure 7: EFCN Funding Sources

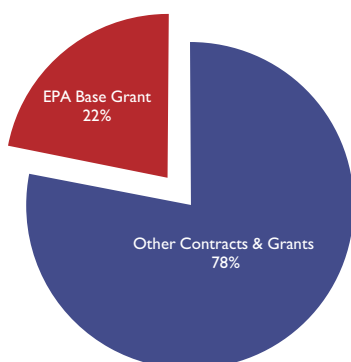
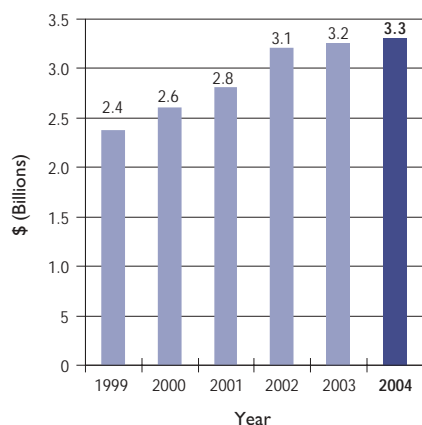


Figure 8: Cumulative Superfund Cost Recoveries 1999–2004



financing, and collaborative networks—to protect human health and the environment. Figure 5 depicts EPA's costs (expenses for services rendered or activities performed) by spending category.<sup>26</sup>

Grant programs comprise 58 percent of EPA's costs (Figure 5). Two State Revolving Funds (SRFs) that support the Agency's Clean and Safe Water goal (Figure 6) account for 43 percent of the Agency's grant awards. Other major EPA environmental grant programs include assistance to states and tribes, consistent with EPA's authorizing statutes, and research grants to universities and nonprofit institutions.

### INNOVATIVE FINANCING: PARTNERSHIPS AND THE ENVIRONMENTAL FINANCE PROGRAM

Over 25 percent of the Agency's funds go toward improving water quality. EPA leverages federal funds through several innovative environmental financing efforts, mutually beneficial public–private partnerships, such as SRFs and the Environmental Finance Program.

Collaboration and partnerships with the states help EPA manage its resources wisely to keep the nation's water clean and safe. As of early FY 2004, the Clean Water SRF had leveraged nearly \$21 billion in federal capitalization grants into more than \$43.5 billion in assistance to municipalities and other entities for wastewater projects. The Drinking Water SRF has leveraged \$6.4 billion in federal capitalization grants into more than \$8.1 billion available for drinking water assistance.

The Environmental Finance Program helps regulated entities find creative ways to fund environmental programs, projects, and activities. The program seeks to lower costs, increase investments, and build capacity via partnerships with state and local governments and the private sector. It provides leveraged financial outreach services to these partners through three distinct, but related, components: the federally chartered Environmental Financial Advisory Board; a network of nine university-based Environmental Finance Centers (EFCs); and an online database, the Environmental Financing Information Network. Additional information is available at <http://www.epa.gov/efinpage>.

To date, the EFC Network has provided education, technical assistance, and analytic support to public and private entities in 48 states. The EFCs accomplish this through leveraging base grants from EPA with up to 3.5 times as much in additional grants and contracts from other public and private clients (Figure 7).

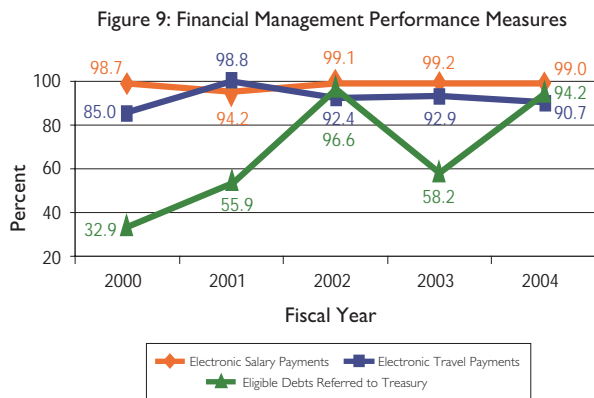
### SUPERFUND COST RECOVERY

EPA applies consistent and certain enforcement to motivate compliance. One of the Agency's enforcement success stories is its Superfund program, which leverages funding to increase cleanup of contaminated sites.

Under Superfund, EPA may recover the cost of cleanups. Figure 8 shows that since 1980, EPA has collected \$3.28 billion in cost recoveries.<sup>27</sup> EPA also retains and uses the proceeds received under settlement agreements to conduct cleanup activities, placing these funds in interest-bearing, site-specific special accounts. With careful management, EPA uses and leverages these resources to the fullest extent possible. As of September 30, 2004, EPA had established 444 special accounts with \$1.3 billion in receipts. These accounts earned an additional \$5.2 million in interest.<sup>28</sup>

### MEASURING FINANCIAL MANAGEMENT RESULTS

EPA tracks its performance in key financial management areas: processing payments; reconciling cash, along with managing accounts receivable; budgets; contracts; Superfund billings; and property. In FY 2004, the Agency generally met or exceeded its performance goals. Figure 9 presents results for three Agency performance measures that support the Administrator's e-government and improved financial management priorities.



### LEVERAGING TECHNOLOGY

- Data mining—searching data for hidden correlations.
- Business Intelligence—linking disparate databases and making data connections.
- Web technologies—providing easy access to useful data.
- Defining business lines—identifying and capturing data meaningfully for program management decision making.
- Integrating the Strategic Plan and the Budget—using EPA's strategic goal-based architecture as the basis for developing the Agency's budget and tracking spending.

As required by the Improper Payments Information Act (IPIA) of 2002 and the Office of Management and Budget (OMB) Memorandum M-03-07, EPA conducted a risk assessment on various programs in FY 2004 and identified a less than 1 percent error rate in payments (Figure 10). EPA will statistically sample and annually report on improper payments in the two SRFs previously covered under OMB Circular Number A-11, Section 57.

### NEW FINANCIAL MANAGEMENT INITIATIVES

Timely, accurate information is critical for managing resources wisely. The Agency leverages technology and updates its systems to produce the information program managers need to make sound decisions. EPA is committed to managing its finances thoroughly and responsibly, and to using resources efficiently and effectively to further its progress in protecting human health and the environment.

Figure 10: Improper Payment Reduction Outlook for FY 2004–FY 2007  
(dollars in millions)

PROGRAM	FY 2004 OUTLAYS	FY 2004 Improper Payments %	FY 2004 Improper Payments	FY 2005 Improper Payments %	FY 2006 Improper Payments %	FY 2007 Improper Payments %
Clean Water and Drinking Water Revolving Funds	\$2,105	.49%	\$10.3	.45%	.40%	.35%

# Improving Results

To address increasingly complex environmental challenges, it is essential that EPA and its partners work together to establish goals and priorities, plan and budget to achieve results, measure their progress, and adjust strategies to improve their performance. In FY 2004, EPA continued to collaborate closely with states and tribes, strengthening vital partnerships with the Environmental Council of the States (ECOS) and the Tribal Caucus. The Agency also focused on improving how it conducts program evaluations and applies findings, tracks and measures its performance, addresses environmental data issues, and anticipates and plans for future trends and issues.

## STRENGTHENING COLLABORATION WITH PARTNERS

Without the support and participation of states, tribes, and other federal agencies, EPA could not have achieved its FY 2004 accomplishments and will not achieve its long-term goals for protecting human health and the



environment. EPA is committed to strengthening its partnerships and working collaboratively with states and tribes to focus on the most important work to be done and complement and leverage—not duplicate—efforts.

During FY 2004, EPA worked closely with ECOS to improve joint planning and priority-setting. EPA and states focused on aligning planning processes to enable states, tribes, and EPA regions to engage more meaningfully at the earliest stages of the Agency's annual planning; making EPA's planning process as open and inclusive as possible; streamlining processes and minimizing transaction costs; and improving communication, particularly in terms of defining roles, priorities, and accountability for results. This collaboration resulted in several significant reforms to the Agency's annual planning process.<sup>29</sup> In FY 2004, EPA:

- Developed Regional Plans that consider regional conditions, reflect regional, state, and tribal priorities, and link regional strategies and initiatives to the Agency's *Strategic Plan*.
- Expanded opportunities for states and tribes to engage in EPA's annual planning, inviting them to participate in planning and performance meetings and soliciting their input to FY 2005 guidance that will shape program priorities and commitments for the next 3 years.
- Implemented a streamlined process for developing annual regional performance commitments that actively engages states and tribes prior to and during regional–national program negotiations.
- Funded with ECOS a Cooperative Agreement for conducting pilot projects to strengthen states' capabilities to manage for results and to improve joint regional–state planning. FY 2004 projects involved 22 states and 6 regions; pilot results are providing models for other states.
- Worked with ECOS to improve Performance Partnership Agreements, grounding them in integrated planning and structuring them around essential

elements to more clearly define state–EPA working relationships.

While the Agency worked with ECOS to improve collaboration overall, EPA program and regional offices, states, and tribes continued to achieve specific environmental results. EPA worked with the State of Michigan to reduce chemical hazards in Flint, Michigan, schools by auditing and collecting hazardous chemicals, including mercury and lead, and increasing the community’s awareness of risks posed by chemicals in the area. Approximately 7,000 pounds of various chemicals were collected and disposed of in an environmentally safe manner. Colorado’s State Department of Public Health and Environment prevented mercury releases to the air and land by working with automobile salvage yards to remove mercury switches from junk automobiles before they were dismantled, shredded, and melted at electric arc furnace steel mills.

EPA and Native American Tribes worked together to address key environmental problems in Indian Country. For example,

- EPA and more than 50 tribes have formed the Yukon River Inter-Tribal Watershed Council, which is building holistic programs to reduce contaminants in subsistence food sources, homes, and schools within tribal communities. In 2004, the Council completed a large-scale environmental plan to address contaminant issues on the Yukon River.
- EPA, the State of Idaho, and the Nez Perce Tribe signed a Memorandum of Agreement in FY 2004 to develop a Total Maximum Daily Load standard for sediments, temperature, nutrients, dissolved oxygen, and bacteria that will protect water quality on tribal lands. This effort provides a model for working in partnerships and leveraging resources to improve water quality.
- EPA conducted seven pollution prevention assessments at tribal clinics across California, Arizona, and Nevada to help

reduce or eliminate mercury-containing devices and red bag medical waste; recycle metals and hazardous and solid waste; and substitute environmentally preferable products, procedures, and best management practices for toxic cleaning, disinfection, and pest management substances. This ongoing partnership aims to virtually eliminate mercury-containing waste from these waste streams by 2005, reduce the overall volume of all wastes by 30 percent by 2005 and 50 percent by 2010, and identify further opportunities for preventing pollution and reducing hazardous waste.

EPA continues to cooperate closely with its federal partners. In FY 2004, EPA and the U.S. Food and Drug Administration (FDA) jointly developed a methylmercury fish advisory—for the first time merging their fish advisories to provide the public with comprehensive information in one document.<sup>30</sup> Based on the success of this endeavor, FDA and EPA intend to work together to address PCBs and other fish contamination concerns.

## USING PROGRAM EVALUATION AND THE PART

EPA relies on program evaluations and analyses to inform decisions, design effective strategies, and adjust approaches to improve results. During the FY 2006 budget formulation process, for example, EPA senior managers used the results of the Administration’s Program Assessment Rating Tool (PART) reviews to identify needs for program improvement, justify resource requests, and guide decisions.

The PART process, which rates programs’ effectiveness, was first used in FY 2002 for the development of EPA’s FY 2004 budget. During that first year, only one of the programs “PARTed” received a rating of “adequate.” In contrast, the following year (i.e., FY 2003 for the FY 2005 budget) 7 programs received ratings of “adequate” or “moderately

effective.” This improvement in PART ratings illustrates the commitment across EPA’s workforce to designing and implementing programs that fully deliver environmental results. Ratings for programs assessed during FY 2004 for the FY 2006 budget will not be available until February 2005.

## More EPA programs demonstrated results.

EPA continued developing efficiency measures that assess how program results relate to the resources and time spent to achieve those results. By the end of FY 2004, EPA had developed efficiency measures for 28 programs that have undergone PART assessments. For example, the Agency developed an efficiency measure for its drinking water program that tracks dollars spent per person receiving drinking water compliant with EPA’s health-based drinking water standards. Under its water program, EPA will track the number of water bodies restored, improved, or protected per million dollars provided to states under the Clean Water State Revolving Fund. The Agency will also track cumulative tons of ozone depleting potential-weighted emissions reduced per cumulative EPA and industry dollars spent. A complete list of measures developed during the FY 2004 and FY 2005 PART process can be found in Appendix C. Additional information on the PART process is available at <http://www.whitehouse.gov/omb/part/index.html>.

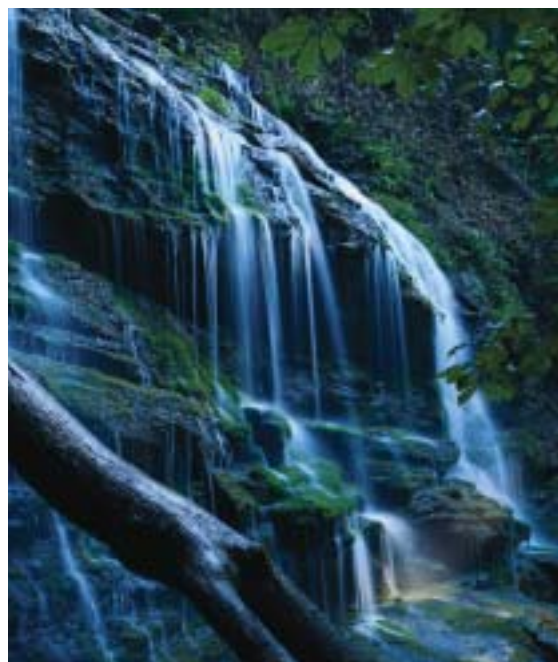
EPA conducted other types of program evaluations in FY 2004 as well. For example, the Agency assessed the influence and cost of Oregon’s Toxics Use and Waste Reduction Assistance Program (TUWRAP), particularly TUWRAP’s impact on compliance with hazardous waste requirements. The evaluation found that Oregon’s site visits to provide technical assistance strongly influenced hazardous waste generator compliance, leading Oregon’s Department of Environmental Quality (DEQ) and EPA’s Region 10 office to

discuss how to incorporate TUWRAP into DEQ’s overall compliance program. Appendix A contains a complete list of program evaluations completed in FY 2004.

## IMPROVING ENVIRONMENTAL INDICATORS, PERFORMANCE MEASUREMENT, AND DATA QUALITY

EPA issued its first *Draft Report on the Environment* in FY 2003 to present the best available indicators of the current state of the environment and provide a baseline of environmental information for measuring future performance. In FY 2004, the Agency initiated a national dialogue on the draft report to refine environmental indicator information and make it more useful to decision makers. Through a series of public meetings across the country with stakeholder groups and other interested parties, EPA gained ideas for improving indicators, filling key environmental data gaps, and meeting research needs. This information will help EPA shape the next *Report on the Environment*, to be issued in FY 2006.

As the Agency moves forward, EPA also intends to develop and use environmental indicators that can enhance our ability to manage for results in order to report more



clearly on progress in achieving long-term environmental and human health goals. The Agency's strategic planning, work on environmental indicators, and development of the next *Report on the Environment*, are now being coordinated with this end in mind. The *Draft Report on the Environment* and information on the Agency's "Indicators Initiative" are available at <http://www.epa.gov/indicators>.

## *EPA made strides in measuring environmental outcomes.*

EPA furthered its effort to focus annual performance goals and measures on environmental outcomes, rather than activity-based outputs. The percentage of annual performance goals that track environmental or intermediate outcomes increased from 44 percent in EPA's FY 2004 *Annual Performance Plan* to approximately 60 percent in its FY 2005 *Annual Performance Plan*. Likewise, the percentage of annual performance measures tracking outcomes increased to approximately 64 percent, up from 51 percent the previous year. In addition, in FY 2004 the Agency developed more than 20 new multi-year Measure Development and Implementation Plans to improve its measures over time. A variety of programs, representing all five of the Agency's strategic goals and including some programs assessed under the PART process, have adopted these plans.

Finally, EPA continued to ensure that its performance and financial data are reliable and complete. In FY 2004, EPA detected and corrected errors in environmental data; standardized reporting; and collaborated with federal, state, and local data-sharing partners to exchange and integrate electronic data and information. For complete information on the quality of the data contained in Section II—Performance Results, see Appendix B.

### NEW EPA PERFORMANCE MEASURES DEVELOPED IN FY 2004

- **Air Toxics:** EPA will measure cumulative reductions in air toxic emissions, differentiating between cancer and noncancer risks reduced.
- **Stratospheric Ozone:** EPA will report every 5 years on chlorine and bromine (two key ozone-depleting chemicals) loadings in the atmosphere. Further, in 2050, EPA will report on the number of reductions in melanoma and nonmelanoma skin cancers and the number of premature deaths avoided.
- **Pesticide Worker Protection:** EPA will measure the number of occupational pesticide poisoning incidents to assess the effectiveness of the Agency's Worker Protection Standard for Agricultural Workers, established in 1995.
- **Coastal and Ocean Waters:** EPA will measure specific indicators of aquatic system health for coastal wetlands, and water clarity and dissolved oxygen in coastal waters at the national level.

### CONSIDERING FUTURE TRENDS AND LOOKING AHEAD

EPA recognizes the value of foresight in strategic planning. In FY 2004, the Agency revised its approach to conducting environmental futures analyses and incorporating findings into the Agency's strategic planning. EPA senior managers and staff identified significant environmental trends, demographic issues, transformative technologies, and industrial trends that might have consequences for environmental quality and EPA's work. Information gleaned from these discussions will provide the basis for a more in-depth analysis of emerging environmental trends, the results of which will better inform the Agency's planning and 2006 *Strategic Plan*.

In FY 2004, EPA also began projects to build staff capabilities for using futures analysis to increase environmental foresight and inform planning. One project developed a range of plausible forecasts of the growth of hydrogen micro-fuel cell technologies in the marketplace and their potential environmental impacts.

# Addressing Management Issues and Challenges

The Reports Consolidation Act of 2000<sup>31</sup> authorizes agencies to consolidate various management reports and submit them as part of their annual reports. This section discusses EPA's progress in strengthening management practices to achieve program results. It includes the FY 2004 Integrity Act Report, which highlights the strategies implemented and progress made in addressing management concerns identified under the Federal Managers Financial Integrity Act (FMFIA),<sup>32</sup>

Management's Report on Audits, which summarizes the Agency's efforts to carry out corrective actions on audits issued by EPA's Office of the Inspector General (OIG); and a summary of the OIG's list of EPA's top management challenges facing the Agency along with a brief update on the Agency's progress to address each issue. A more detailed discussion of these issues can be found at <http://www.epa.gov/ocfo/finstatement/2004ar/2004ar.htm>.

## FY 2004 Integrity Act Report

In FY 2004, for the third year, EPA had no material weaknesses to report under FMFIA. During the year, the Agency resolved three of its less severe, internal Agency weaknesses, reportable conditions that merit the attention of the Administrator (see chart "4 Year Trend of Material and Agency Level Weaknesses" on page 19). To identify management issues and monitor progress in addressing them, Agency senior leaders use a system of internal and independent reviews and program evaluations, audits by the Government Accountability Office (GAO) and EPA's OIG, and performance measurement. These efforts help ensure that program activities are effectively carried out in accordance with applicable laws and sound management policy, and provide reasonable assurance that Agency resources are protected against fraud, waste, abuse, and mismanagement.

OMB continues to recognize EPA's efforts to maintain effective and efficient management controls. Since June 2003, the Agency has maintained its "green" status score for Improved Financial Performance under the PMA. EPA's senior managers meet periodically during the course of the year to provide

updates on the progress the Agency is making to resolve its current management challenges and to identify and discuss emerging management issues so that new issues can be addressed before they become serious problems.

In FY 2004, EPA made progress in addressing a wide range of major management challenges, thereby strengthening its ability to achieve environmental and human health results. The Agency's advancements

### FISCAL YEAR 2004 ANNUAL ASSURANCE STATEMENT

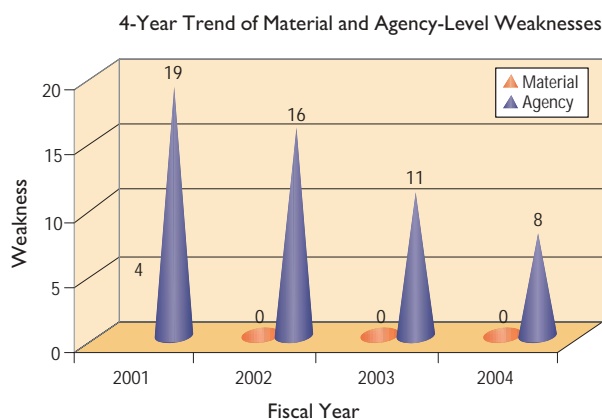
I am pleased to give an unqualified statement of assurance that the Agency's programs and resources are protected from fraud, waste, and mismanagement, based on EPA's annual self-assessment of its internal management and financial control systems.



Michael O. Leavitt  
Administrator  
November 2, 2004

in establishing and implementing effective management controls in environmental programs include:

- Using a comprehensive, integrated strategy to address risk from all sources of air toxics—major, area, and mobile. In FY 2004, EPA completed all of its 10-year Maximum Achievable Control Technology standards. This effort has already resulted in annual reductions of 1.5 million tons of toxic air emissions and is expected to achieve even greater reductions when all sources come into full compliance by 2007. Other aspects of the strategy include a focus on air toxics reductions in communities and working on mobile source regulations through reformulated gasoline, engine standards, and other efforts, as well as a voluntary diesel retrofit program.
- Addressing Laboratory Quality System Practices through EPA's Forum on Environmental Measurement of the Science Policy Council, which developed a policy directive ensuring and documenting the competency of Agency laboratories. Under the policy, EPA laboratories demonstrate on-going performance through independent external assessments, accreditation or certification, and inter-laboratory comparison studies of their operations.
- Improving water quality by reducing the backlog of NPDES Permits<sup>33</sup> and setting priorities for water permits to achieve environmental results. In collaboration with states and regions, EPA continues to implement the Permitting for Environmental Results strategy to assess and identify opportunities for enhancing the integrity and efficiency of the NPDES program.
- Redesigning and modernizing EPA's Permit Compliance System to address expanded requirements of the NPDES permitting program and provide better information for the Agency's compliance and enforcement programs (e.g., tracking



pollutant loadings, capturing information on storm water sources, and assessing the health of individual watersheds).

The Agency also addressed a number of challenges in administrative and management areas, which provide the infrastructure supporting EPA's ability to achieve results. Following are examples of FY 2004 accomplishments toward continued improvement in effective management of resources:

- Implementing a comprehensive approach to managing grant awards, which make up more than half of the Agency's budget.<sup>34</sup> Having issued policies to address competition and post-award monitoring, EPA implemented its Grants Management Training Plan to enhance the skills of personnel involved in grants management. EPA is also focusing efforts on improving grant recipients' understanding of federal grant requirements. In addition, EPA is the first agency to successfully enhance and deploy the Integrated Grants Management System, which fully automates grant processes in regional offices.
- Strengthening management controls to ensure that the Information Security Program collects data of sufficient quality for decision makers. Advancements include improved technology and hardware, along with new testing and evaluation processes and greater investments in information security training.

- Making significant progress in the area of human capital. In FY 2004, EPA achieved “green” progress and “yellow” status scores for successfully implementing the human capital portion of the PMA.<sup>35</sup> In addition, the Agency began documenting the relationship between every employee’s work and the Agency’s strategic goals to fulfill Agency commitments to the Office of Personnel Management and OMB. EPA has taken crucial steps in the areas of workforce planning and staff development, with

particular emphasis on management development.

The “Key Management Challenges” section in the Overview (which follows the “FY 2004 Management’s Report on Audits” section below) lists EPA’s Top 10 management challenges as identified by EPA’s OIG and others and summarizes actions EPA is taking to address these issues. More detailed information on the work being done to address the Agency’s management issues is available at <http://www.epa.gov/ocfo/finstatement/2004ar/2004ar.htm>.

## FY 2004 Management’s Report on Audits

The Inspector General Act of 1978, as amended,<sup>36</sup> requires federal agencies to report to Congress on the status of their progress in carrying out audit recommendations. Audit management serves as a tool in assessing the Agency’s ability to meet its strategic objectives. EPA continues to strengthen its audit management practices and has improved its ability to address and complete corrective actions in a timely manner.

In FY 2004, EPA was responsible for addressing OIG’s recommendations and tracking follow-up activities on 249 audits. The Agency achieved final action (i.e., completion of all corrective actions associated with an audit) on 136 audits, which include Program Evaluation/Program Performance Audits, Assistance Agreements Audits, Contracts Audits, and Single Audits. Results achieved during FY 2004 for the Agency’s audit management activities are summarized below. A listing of audits for which corrective actions have not been completed within a year can be found at <http://www.epa.gov/ocfo/finstatement/2004ar/2004ar.htm>.

**Final Corrective Action Taken.** EPA completed final corrective actions on 15

performance and 121 financial audits. Of the 121 financial audits, OIG questioned costs of more than \$ 97 million (i.e., costs incurred by the Agency from contractors or grantees which may be ineligible by law or regulation; not supported by sufficient documentation; or unnecessary expenditures). After careful review, OIG and the Agency agreed to disallow approximately \$35 million of these questioned costs (i.e., either deny payment or seek reimbursement for payments already made). In the performance audit arena, EPA managers and the OIG did not identify funds that could be put to better use.

**Final Corrective Action Not Taken.** As of the end of FY 2004, 112 audits were without final action and have not been fully resolved (excluding those audits with management decisions under administrative appeal by the grantee).

**Final Corrective Action Not Taken Beyond 1 Year.** Of the 112 audits, EPA officials had not completed final action on 29 audits within 1 year after the management decision (i.e., the point at which the OIG and the Action Official reach agreement on the corrective action plan). Because of the complexity of

the issues, it often takes Agency management more than 1 year after management decisions are reached with OIG to complete the agreed-upon corrective actions.

**Audits Awaiting Decision on Appeal.** EPA regulations allow grantees to appeal manage-

ment decisions on financial assistance audits that seek monetary reimbursement from the recipient. In the case of an appeal, EPA must not take action to collect the account receivable until the Agency issues a decision on the appeal. At the end of FY 2004, 39 audits were in administrative appeal.

### DISALLOWED COSTS & FUNDS PUT TO BETTER USE

October 1, 2003 – September 30, 2004

Category	Disallowed Costs (Financial Audits)		Better Use (Performance Audits)	
	Number	Value	Number	Value
A. Audits with management decisions but without final action at the beginning of FY 2004.	83	\$106,591,146	27	\$0
B. Audits for which management decisions were made during FY 2004: (i) Management decisions with disallowed costs. (23) (ii) Management decisions with no disallowed costs. (90)	113	\$ 3,007,793	25	\$0
C. Total audits pending final action during FY 2004. (A+B)	196	\$109,598,939	52	\$0
D. Final action taken during FY 2004: (i) Recoveries a) Offsets b) Collections c) Value of Property d) Other (ii) Write-offs. (iii) Reinstated through grantee appeal (iv) Value of recommendations completed. (v) Value of recommendations management decided should/could not be completed.	121	\$ 35,213,332 \$ 7,993,454 \$ 772,680 \$0 \$ 11,196,584 \$ 9,508,924 \$ 5,741,690	16	\$0      \$0 \$0
E. Audit reports needing final action at the end of FY 2004. (C - D)	75	\$ 74,385,607	37	\$0

# Key Management Challenges

(Prepared by EPA's Office of the Inspector General)

EPA continues to make progress in addressing long-standing management challenges identified by the Office of the Inspector General (OIG). The following table identifies the top management challenges faced by the

Agency and the relation of the issues to EPA's *Strategic Plan* and the President's Management Agenda. Results of a recent OIG survey indicate that EPA senior leaders are committed to strengthening strategic

EPA's TOP MANAGEMENT CHALLENGES REPORTED BY THE OFFICE OF INSPECTOR GENERAL	FY 2002 <sup>37</sup>	FY 2003 <sup>38</sup>	FY 2004 <sup>39</sup>	LINK TO EPA'S STRATEGIC GOAL	LINK TO PRESIDENT'S MANAGEMENT AGENDA
<b>Linking Mission to Management:</b> Development of outcome-based targets.	●	●	●	Cross-Goal	Budget and Performance Integration
<b>Agency Efforts in Support of Homeland Security:</b> Implementing a strategy to effectively coordinate and address threats.	●	●	●	Cross-Goal	
<b>Superfund Evaluation and Policy Identification:</b> Improving the usefulness of internal evaluations, and implementing program policy decisions.			●	Goal 3	
<b>Information Resource Management and Data Quality:</b> Improving the quality of data used.	●	●	●	Cross-Goal	Expanded E-Government
<b>EPA's Use of Assistance Agreements to Accomplish Its Mission:</b> Improving Management of the billions in grant funding awarded by EPA.	●	●	●	Cross-Goal	Improved Financial Performance
<b>Challenges in Addressing Air Toxics Program Phase 1 and Phase 2 Goals:</b> Reducing air toxic emissions by improving approach and measures.	●	●	●	Goal 1	
<b>Human Capital Management:</b> Implementing a strategy to develop staff.	●	●	●	Cross-Goal	Human Capital
<b>Information Security:</b> Protecting information systems by preventing intrusion and abuse.	●	●	●	Cross-Goal	Expanded E-Government
<b>Management of Biosolids:</b> Improving sewage sludge management to sufficiently protect the public.	●	●	●	Goal 2	
<b>Backlog of National Pollutant Discharge Elimination System Permits:</b> Addressing permit renewal backlog for water dischargers.	●	●	●	Goal 2	
<b>EPA's Working Relationship with States:</b> Improving structure for working with states	●	●	◈	Cross-Goal	

◈ In FY 2004, EPA's Working Relationship with States was consolidated in item 1, Linking Mission to Management.

human capital management and linking human capital to program success. EPA continues to enhance its Information Security Program through risk assessments of its major systems, conducting internal and external penetration testing, and monitoring the Agency's firewall and intrusion detection system. EPA is

also working closely with federal, state, and local counterparts to strengthen and effectively coordinate on Homeland Security issues.

While EPA continues to address the management challenges, sustained attention and management action must continue to correct outstanding issues.

### HIGHLIGHTS OF EPA'S ACTIONS TO ADDRESS OIG'S KEY MANAGEMENT CHALLENGES

OIG's Top Management Challenges	Summary of EPA's Actions
<b>Linking Mission and Management:</b> OIG believes that while EPA has begun linking costs to goals, it must continue to work with its partners to develop appropriate outcome measures and accounting systems that track environmental and human health results across the Agency's new goal structure. This information must then become an integral part of the Agency's decision-making process.	<ul style="list-style-type: none"> <li>Implemented a new financial architecture that provides greater program and project details in the Agency's accounting system.</li> <li>Developed Regional Plans that link to Agency's Strategic Plan.</li> <li>Implemented annual commitment system for regions and national programs.</li> </ul>
<b>Agency Efforts in Support of Homeland Security:</b> EPA needs to develop better processes for ensuring security at Nationally Significant Events, assess vulnerability of water utilities and determine how to measure water security improvements, and better define the Agency's role in protecting air from terrorist threats.	<ul style="list-style-type: none"> <li>Revised the Homeland Security Strategic plan.</li> <li>Established the Homeland Security Collaborative Network to coordinate and address high priority, cross-Agency technical and policy issues related to homeland security programs.</li> <li>Developed a homeland security information management system. (see <i>Overview for programmatic examples</i>)</li> </ul>
<b>Superfund Evaluation and Policy Identification:</b> OIG believes EPA faces significant challenges in its ability to meet effectively current and future Superfund needs and must establish a strong working relationship between states and tribes in order to achieve its environmental goals.	<ul style="list-style-type: none"> <li>Initiated an internal review of the Superfund program to identify opportunities for program efficiencies.</li> <li>Worked to increase oversight of the Tribal Association on Solid Waste and Emergency Response cooperative agreement, in accordance with commitments to OIG.</li> <li>Developing a program evaluation strategy to identify, develop, and select evaluation projects aimed at improving the efficiency and effectiveness of remedial programs.</li> </ul>
<b>Information Resource Management and Data Quality:</b> EPA faces a number of challenges with the data it uses to make decisions and monitor progress against environmental goals.	<ul style="list-style-type: none"> <li>Improved data management and usage by providing tools and planning processes for effective data sharing, integration, and identification of key data gaps.</li> <li>Developed and issued a policy directive to ensure and document the competency of Agency laboratories.</li> </ul>
<b>EPA's Use of Assistance Agreements to Accomplish Its Mission:</b> EPA needs to improve oversight for awarding and administering assistance agreements to ensure effective and efficient use of resources. Recent OIG and GAO audits continue to identify problems in the use of assistance agreements.	<ul style="list-style-type: none"> <li>Developed a long-term Grants Management Plan which outlines the Agency's approach to effective grants management.</li> <li>Implemented the Grants Management Training Plan to enhance the skills of EPA personnel involved in grants management.</li> <li>Issued a comprehensive post-award monitoring policy (EPA Order 5700.6).</li> </ul>

(Continued next page)

## HIGHLIGHTS OF EPA'S ACTIONS TO ADDRESS OIG'S KEY MANAGEMENT CHALLENGES (CONTINUED)

OIG's Top Management Challenges	Summary of EPA's Actions
<b>Challenges in Addressing Air Toxics Program Phase 1 and Phase 2 Goals:</b> While EPA has achieved its Phase 1 goal of issuing technology-based standards, there are concerns about EPA's efforts to assess and implement Phase 2, residual risk standards, as well as the accuracy of air toxics data used in measuring progress.	<ul style="list-style-type: none"> <li>Completed all MACT standards. This effort has already resulted in annual reductions of 1.5 million tons of toxic air emissions and will achieve even greater reductions when all sources come into full compliance by 2007.</li> <li>Developed an efficiency measure, "toxicity-weight emissions," to better understand risk reduction.</li> </ul>
<b>Human Capital Management:</b> While EPA is making progress on human capital efforts, it must continue developing and implementing its Human Capital Strategy and focus on accountability and better communication of planned strategies.	<ul style="list-style-type: none"> <li>Established a comprehensive system of management controls:             <ul style="list-style-type: none"> <li>Completed EPA's Human Capital Strategy.</li> <li>Created a new office to oversee implementation of strategy.</li> </ul> </li> <li>Continued investment in workforce through developmental programs at the staff and managerial levels.</li> </ul>
<b>Information Security:</b> Due to the dynamic nature of information security, EPA needs to continue its emphasis and vigilance on strong information security.	<ul style="list-style-type: none"> <li>Strengthened management controls to improve implementation of the Agency's security program and implemented testing and evaluation processes to verify their effectiveness.</li> <li>Continued enhancing program through risk assessments, penetration testing, and monitoring of firewall and intrusion detection systems.</li> </ul>
<b>Management of Biosolids:</b> Although EPA is directing renewed attention to biosolids, EPA needs to implement a national biosolids program and establish strong enforcement to meet CWA to reduce risks and maximize the beneficial use of sewage sludge.	<ul style="list-style-type: none"> <li>Continues to meet statutory obligations under the Clean Water Act pertaining to sewage sludge (biosolids).</li> <li>Maintains an active presence in biosolids compliance and enforcement activities.</li> <li>Published action plan in the Federal Register (68 FR 75531) to strengthen sewage sludge use and disposal program (e.g., field studies on land application, development of improved analytical methods).</li> </ul>
<b>Backlog of National Pollutant Discharge Elimination System Permits:</b> While EPA is making progress in reducing the backlog, OIG is assessing the environmental impact of the backlog, how well the backlog measures reflect impacts, and how successful EPA and states have been at managing the backlog.	<ul style="list-style-type: none"> <li>Developed and implemented the Permitting for Environmental Results strategy to focus scarce permit-writing resources on environmentally significant permits.</li> <li>Streamlined the NPDES permitting process by developing tools to ensure efficiency (automated permit writing process). (see <i>Overview for programmatic results</i>)</li> </ul>

## NOTES

- 1 The Federal Managers Financial Integrity Act, the Inspector General Act Amendments, the Government Management Reform Act, the Chief Financial Officers Act, and the Reports Consolidation Act.
- 2 EPA (U.S. Environmental Protection Agency). 1997. Benefits and Costs of the Clean Air Act, 1970 to 1990. Final Report to Congress. EPA 410/R-97-002. Office of Air and Radiation, Office of Policy, Planning and Evaluation. U.S. Environmental Protection Agency, Washington, DC. Available at: <http://www.epa.gov/oar/sect812/contsetc.pdf>.
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